



JOHN NAIMO
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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February 8, 2016

TO: Supervisor Hilda L. Solis, Chair
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: John Naimo 
Auditor-Controller

SUBJECT: **MARY'S SHELTER – A DEPARTMENT OF CHILDREN AND FAMILY
SERVICES GROUP HOME CONTRACT PROVIDER – FISCAL
COMPLIANCE REVIEW**

We completed a fiscal compliance review of Mary's Shelter (Mary's Shelter or Agency), which included a sample of transactions from October 2013 through January 2015. The Department of Children and Family Services (DCFS) contracts with Mary's Shelter to care for foster children placed in the Agency's group homes (GH).

The purpose of our review was to determine whether Mary's Shelter appropriately accounted for and spent GH Program funds to provide the services outlined in their County contract. We also evaluated the Agency's financial records, internal controls, and compliance with their County contract and applicable guidelines.

DCFS paid Mary's Shelter approximately \$1.2 million from October 2013 through January 2015 on a fee-for-service basis, at rates ranging from \$8,529 to \$8,714 per child per month. Mary's Shelter is located in Orange County.

Results of Review

Mary's Shelter recorded and deposited DCFS cash receipts timely. However, the Agency did not always comply with their County contract requirements. Specifically, Mary's Shelter:

- Inappropriately charged \$2,601 (\$584 in unallowable + \$2,017 in inadequately supported) in expenditures to their County contract.

Mary's Shelter reported spending \$196,133 in private unrestricted donations during Calendar Year 2014 for their operating expenses. However, the Agency did not maintain accounting records that clearly identify the specific use of the donated funds, as required by the May 2014 County contract amendment. Of the \$2,601 in questioned costs, \$1,672 was incurred prior to the May 2014 County contract requirement. As a result, we reduced the amount of questioned costs to \$929 (\$2,601 - \$1,672).

Mary's Shelter's response, which is incorporated in DCFS' attached response, indicates that they repaid the \$929 in questioned costs. DCFS confirmed that Mary's Shelter repaid the \$929.

- Did not encrypt computers that contained confidential and Personally Identifiable Information.

Mary's Shelter's response, which is incorporated in DCFS' attached response, indicates that they are researching software to purchase and install on all their computers.

- Semi-Annual Expenditure Report (SAER) did not reconcile to their accounting records. Specifically, Mary's Shelter reported a total of \$17,803 more in expenditures in their July through December 2014 SAER than reported in their accounting records, and submitted their July through December 2014 SAER approximately three months late.

Mary's Shelter's response, which is incorporated in DCFS' attached response, indicates that they have submitted a revised July through December 2014 SAER to DCFS, and will schedule the SAER due dates on their administrative calendars to improve timeliness of submission of their SAERs.

In addition, we identified areas where the Agency could strengthen their internal controls over bank reconciliations, disbursements, fixed assets and equipment, and payroll and personnel records. Details of our review, along with recommendations for corrective action, are discussed in Attachment I.

Review of Report

We discussed our report with Mary's Shelter and DCFS on September 3, 2015. The Agency's Fiscal Corrective Action Plan (FCAP) that was approved by DCFS and incorporated in DCFS' response (Attachment II) indicates the Agency agrees with our

findings and recommendations. DCFS management will conduct a review of the Agency's implementation of their FCAP within 90 days of the approved FCAP.

We thank Mary's Shelter management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Don Chadwick at (213) 253-0301.

JN:AB:PH:DC:AA:sgd

Attachments

c: Sachi A. Hamai, Chief Executive Officer
Philip L. Browning, Director, Department of Children and Family Services
Barbara Nelson, Executive Director, Mary's Shelter
Board of Directors, Mary's Shelter
B. Ray Thomas, Manager, Program/Provisional Unit, California Department of Social
Services
Commission for Children and Families
Public Information Office
Audit Committee

**MARY'S SHELTER
GROUP HOME CONTRACT PROVIDER
FISCAL COMPLIANCE REVIEW
OCTOBER 1, 2013 THROUGH JANUARY 31, 2015**

CASH/REVENUE

Objective

Determine whether Mary's Shelter (Mary's Shelter or Agency) properly recorded revenue in their financial records, deposited cash receipts into their bank accounts timely, and if bank reconciliations were prepared, and reviewed and approved by Agency management timely.

Verification

We interviewed Agency personnel, and reviewed their financial records and January 2015 bank reconciliations for four bank accounts.

Results

Mary's Shelter properly recorded revenue in their financial records, and deposited Department of Children and Family Services (DCFS) cash receipts timely. However, Mary's Shelter did not reconcile their bank statements in accordance with the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook) Section B.1.4. Specifically:

- All four bank reconciliations' ending balances did not reconcile to the Agency's accounting records. Specifically, we noted variances totaling \$1,070. The Agency could not provide a reasonable explanation for two of the four bank reconciliation variances. However, the remaining two variances were due to immaterial posting errors.
- The bank reconciliations were not signed by the preparer.

Recommendation

1. **Mary's Shelter management ensure bank reconciliations are signed by the preparer and reconciling items are resolved timely.**

COST ALLOCATION PLAN/EXPENDITURES

Objective

Determine whether Mary's Shelter developed their Cost Allocation Plan (Plan) using an appropriate cost allocation methodology, and if expenditures charged to the Group Home (GH) Program were allowable, properly documented, and appropriately allocated.

Verification

We interviewed Agency personnel, and reviewed their Plan and financial records for 22 non-payroll expenditures, totaling \$36,984, that the Agency charged to the GH Program from October 2013 through January 2015.

Results

Mary's Shelter's Plan was not in compliance with their County contract. Specifically, the Agency allocated expenditures based on estimated salaries and expenditures instead of using actual conditions, and did not accurately allocate shared expenditures to all Agency programs as required by Office of Management and Budget Circular A-122 (OMB Circular A-122) Attachment A Section 4. Mary's Shelter needs to develop an appropriate Plan and ensure shared program expenditures charged to the County are appropriately allocated.

In addition, the Agency inappropriately charged unallowable and unsupported expenditures totaling \$2,601 (7%) of the \$36,984 reviewed. For example, the Agency inappropriately charged:

- \$2,017 in inadequately supported expenditures. Specifically, the Agency did not provide sufficient documentation to determine whether the expenditures were Program related. OMB Circular A-122 Attachment A Section 2 requires costs to be adequately documented to be allowable. A-C Handbook Section A.3.2 states that expenditures must be supported by original vouchers, invoices, receipts, or other supporting documentation, and that unsupported expenditures will be disallowed upon audit.
- \$470 in unallowable investment fees, interest payments, traffic citations, and late fees. OMB Circular A-122 Attachment B Sections 16, 17, and 23 do not allow Program funds to be used for these purposes.
- \$114 in gratuity and Agency Board of Directors' appreciation gifts. OMB Circular A-122 Attachment B Section 14 and Attachment A Section 3 do not allow Program funds to be used for these purposes.

Mary's Shelter reported spending \$196,133 in private unrestricted donations during Calendar Year 2014 for their operating expenses. However, the Agency did not

maintain accounting records that clearly identify the specific use of the donated funds, as required by the May 2014 County contract amendment. Of the \$2,601 in questioned costs, \$1,672 was incurred prior to the May 2014 County contract requirement. As a result, we reduced the amount of questioned costs to \$929 (\$2,601 - \$1,672).

In addition, we noted the Agency lacks internal controls over their disbursement process. For example, the Agency did not mark "paid" or reference the check number on ten (90%) of the 11 questioned expenditures reviewed as required by A-C Handbook Section B.2.1. We also could not determine if four (36%) of the 11 questioned expenditures reviewed, were reviewed and approved prior to payment as required by A-C Handbook Section B.2.2.

Recommendations

Mary's Shelter management:

- 2. Repay the Department of Children and Family Services \$929 (\$426 unallowable + \$503 inadequately supported) in expenditures.**
- 3. Ensure that all expenditures charged to the Group Home Program are allowable and properly documented.**
- 4. Keep accounting records that clearly identify the use of private unrestricted donated funds.**
- 5. Ensure that supporting documentation for disbursements is marked paid and referenced to check numbers to prevent reuse or duplicate payments, and expenditures are approved prior to payment.**

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether Mary's Shelter's fixed assets and equipment purchased with GH Program funds were used for the Program and adequately safeguarded.

Verification

We interviewed Agency personnel, and reviewed their fixed asset and equipment inventory list. We also performed a physical inventory of five items purchased with GH Program funds to verify the items exist and were being used for the GH Program.

Results

Mary's Shelter did not maintain adequate controls over their fixed assets as required by the A-C Handbook Section B.4.2. Specifically, Mary's Shelter did not tag its fixed

assets purchased with GH Program funds and did not include the serial numbers on the inventory listing.

Recommendation

6. **Mary's Shelter management ensure that all fixed assets are appropriately tagged, and the fixed assets listing includes the serial numbers.**

PAYROLL AND PERSONNEL

Objective

Determine whether Mary's Shelter charged payroll expenditures to the GH Program appropriately, and maintained personnel files as required.

Verification

We compared the payroll expenditures for five employees, totaling \$27,137 for January 2015, to the Agency's payroll records and time reports. We also interviewed employees, and reviewed personnel files for five employees.

Results

Mary's Shelter generally maintained their personnel files as required by their County contract. However, the Agency did not properly complete timecards as required by A-C Handbook Section B.3.1. Specifically:

- Three (60%) of the five employees' timecards were not signed by the employees. Timecards should be signed by the employee to certify the accuracy of the reported time.
- Two (40%) of the five employees did not prepare a timecard. Timecards must be prepared for each pay period and must indicate total hours worked each day by program.

Recommendation

7. **Mary's Shelter management ensure all employees prepare timecards for each pay period and that the timecards are signed by the employees to certify the accuracy of the reported time.**

ENCRYPTION CONTROLS

Objective

Determine whether Mary's Shelter maintained encryption software to protect confidential and Personally Identifiable Information (PII).

Verification

We interviewed Agency personnel, reviewed their policies and procedures, and performed a physical inventory of five electronic devices to ensure they had encryption software that was enabled to prevent unauthorized access and use.

Results

Mary's Shelter's electronic devices did not have encryption software as required by A-C Handbook Section A.3.0. Mary's Shelter should ensure all electronic devices that contain confidential and PII have encryption software to prevent unauthorized access and use.

Recommendation

8. **Mary's Shelter management ensure all electronic devices that contain confidential and Personally Identifiable Information have encryption software to prevent unauthorized access and use.**

SEMI-ANNUAL EXPENDITURE REPORT

Objective

Determine whether Mary's Shelter's July through December 2014 Semi-Annual Expenditure Report (SAER) reconciled to their financial records and whether the Agency had any unspent revenue.

Verification

We interviewed Agency personnel, and compared their July through December 2014 SAER to their financial records.

Results

Mary's Shelter's July through December 2014 SAER did not reconcile to their financial records. Specifically, the Agency's SAER reported a total of \$17,808 more in expenditures than indicated in their accounting records because the Agency over-allocated direct salaries and double counted some recruitment and training expenses. Also, the Agency submitted the SAER approximately three months late. Mary's Shelter

needs to revise their SAER and provide DCFS with a revised SAER, and a plan of how they will utilize any unspent revenue, if necessary.

Recommendations**Mary's Shelter management:**

9. **Revise the July through December 2014 Semi-Annual Expenditure Report and provide the Department of Children and Family Services a revised Semi-Annual Expenditure Report, and a plan on how they will utilize unspent revenue, if necessary.**
10. **Ensure Semi-Annual Expenditure Reports are submitted in accordance with the requirements of the Group Home contract.**



PHILIP L. BROWNING
Director

**County of Los Angeles
DEPARTMENT OF CHILDREN AND FAMILY SERVICES**

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December 2, 2015

Barbara Nelson, Executive Director
Mary's Shelter
P.O. Box 10433
Santa Ana, CA 92711

Dear Ms. Nelson,

**MARY'S SHELTER – A DEPARTMENT OF CHILDREN AND FAMILY SERVICES
GROUP HOME CONTRACT PROVIDER– FISCAL COMPLIANCE REVIEW**

We have reviewed your fiscal corrective action plan (FCAP) in response to the Auditor Controller's fiscal audit report for the period of October 2013 through January 2015. The FCAP fully addresses the audit report ten (10) recommendations (see Attachment III).

Additionally, Fiscal Compliance staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

If you have any questions, please contact Ali Gomaa-Mersal, Financial Specialist IV, at (213) 351-0182.

Sincerely,

Ali Gomaa – Mersal for

Kristine Ovsepyan, ASM II
Fiscal Compliance Unit

Attachments

c: Aggie Alonso, Chief Accountant-Auditor (via electronic mail only)
Rhonda David-Shirley, CSA III (via electronic mail only)

"To Enrich Lives Through Effective and Caring Service"

**MARY'S SHELTER – A DEPARTMENT OF CHILDREN AND FAMILY SERVICES
GROUP HOME CONTRACT PROVIDER– FISCAL COMPLIANCE REVIEW**

Note: Department of Children and Family Services (DCFS) will only review documentation not previously provided to the Auditor-Controller.

Summary of Recommendations

Based on the FCAP dated 11/17/15, submitted by Mary's Shelter, status of each recommendation is summarized as follows:

- 10 Recommendations (1 - 10) were fully addressed.
- ___ Recommendations (____) were partially addressed.
- ___ Recommendations (____) directed to the Department were addressed.

Recommendation Status

1. **Mary's Shelter management ensure bank reconciliations are signed by the preparer and reconciling items are resolved timely.**

Agency Proposed FCAP: Both our volunteer accountant (preparer) and Executive Director (reviewer) will now review and initial the Bank Reconciliation Report once any discrepancies have been resolved by our Bookkeeper. Although our volunteer accountant is a retired CPA who travels a great deal, we have discussed the need to schedule time to complete reconciliations in a timely manner.

DCFS Response: Fiscal Compliance staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

2. **Mary's Shelter management repay the Department of Children and Family Services \$929 (\$426 unallowable + \$503 inadequately supported) in expenditures.**

Agency Proposed FCAP: A check for \$929 was mailed on September 30th per your Notice of Action, which we are paying under protest rather than go through the appeal process. We actually spent \$293,382 more in allowable costs to care for residents placed with us by LA DCFS in 2014 than the \$913,971 you paid us. In addition, DCFS is currently two to nine months in arrears in paying us \$17,989 for the care of LA County dependents.

DCFS Response: DCFS received a check in the amount of \$929.

3. **Mary's Shelter management ensure that all expenditures charged to the Group Home Program are allowable and properly documented.**

Agency Proposed FCAP: All direct program expenses, whether allowable under AFDC or not, will continue to be accounted for as program or administrative expenses according to GAAP and the IRS. At your request I created separate line items in our Chart of Accounts "Non AFDC Program Expenses" and "Non AFDC Administrative Expenses" to help you identify them in future audits and to make it easier for us to prepare accurate SAER Reports. Our procedures have always required receipts but occasionally one is lost.

DCFS Response: Fiscal Compliance staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

4. **Mary's Shelter management keep accounting records that clearly identify the use of private unrestricted donated funds.**

Agency Proposed FCAP: Mary's Shelter has always been in compliance with internal controls for revenues by tracking AFDC funds from each county separately, as well as donated funds from various sources and other revenue. For practical purposes, all revenue (with the exception of endowment gifts) is comingled in the operations checking account which is used to pay all expenses. Toward meeting the requirement of also tracking expenses by source, we created "Non AFDC" accounts (as described in #3 above) to identify expenses that are not allowable under AFDC so are paid with donated funds. With the exception of a grant for a restricted capital purchase and development expenses, we have not yet found a way to identify other expenses paid with donated funds but are open to learning what other agencies do to accurately associate revenue sources to program expenses. We are only able to cover the 20% shortfall between AFDC subsidies and the cost of care in this "minor mother and baby program" through the generosity of community supporters – this despite the fact that federal regulations require AFDC payments to cover the total cost of care.

DCFS Response: Fiscal Compliance staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

5. **Mary's Shelter management ensure that supporting documentation for disbursements is marked paid and referenced to check numbers to prevent reuse or duplicate payments, and expenditures are approved prior to payment.**

Agency Proposed FCAP: Expenditures have always been approved prior to payment by the initialing of invoices by the Executive Director to support checks before they are signed, and also by pre-approving expenses staff makes through our Expenditure Request Form and procedures. We will try not to miss any signatures in the future. The change we have made at your recommendation is to obtain a "Paid" stamp for each invoice and write the check number on it, even though we also attach a copy of the signed check to each invoice.

DCFS Response: Fiscal Compliance staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

6. **Mary's Shelter management ensure that all fixed assets are appropriately tagged, and the fixed assets listing includes the serial numbers.**

Agency Proposed FCAP: We are expanding the descriptions of the short list of depreciated items we have to include VIN's or serial numbers if available, and have tagged appropriate items.

DCFS Response: Fiscal Compliance staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

7. **Mary's Shelter management ensure all employees complete timecards for each pay period and that the timecards are signed by the employees to certify the accuracy of the reported time.**

Agency Proposed FCAP: We issued electronic time cards to the three salaried management employees. We also added the requirement to sign timecards to the revised Employee Handbook that went into effect on October 1st. For practical reasons with our 24 hour staff, this will occur after payroll has already been submitted but within the week so that pay checks will not be delayed.

DCFS Response: Fiscal Compliance staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

8. **Mary's Shelter management ensure all electronic devices that have confidential and Personal Identifiable Information have encryption software to prevent unauthorized access and use.**

Agency Proposed FCAP: Since you were not able to specify the type of "encryption software" that meets your requirements, our IT consultant is researching software for us to purchase and install on our twelve computers that will still allow our employees to share files for clients. We already described how our data is fully protected from the internet at the server level as well as with file permissions in-house.

DCFS Response: Fiscal Compliance staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.

9. **Mary's Shelter management revise the July to December 2014 Semi Annual Expenditure Report and provide the Department of Children and Family Services a revised Semi- Annual Expenditure Report, and a plan on how they will utilize unspent revenue, if necessary.**

Agency Proposed FCAP: A revised SAER report for the period is attached. The new accounts (explained under Item #3) were used to identify the non-allowed

expenses for AFDC so there would be no confusion about that. We never have "unspent revenue" – in fact the attached report SAER shows that Mary's Shelter spent \$89,902 more on care for the girls LA County placed with us than you paid us for during just that six month period.

DCFS Response: DCFS received the revised SAER report.

10. **Mary's Shelter management ensure Semi-Annual Expenditure Reports are submitted in accordance with the requirements of the Group Home Contract.**

Agency Proposed FCAP: We will put the SAER report due dates on our administrative calendar to improve timeliness. We look forward to changes in the requirements, since LA County is the only one of the many counties we serve that requires this duplication of effort, based on your fiscal year – not ours, and does not offer an electronic version of the form.

DCFS Response: Fiscal Compliance staff will conduct an on-site review within 90 days to ensure compliance with implementation of the corrective actions.